



Federal Accounting Standards Advisory Board

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June 2, 2006

Memorandum

To: Chief Financial Officers and Inspectors General

From: Wendy M. Comes  
Executive Director

Subject: Questionnaire Pertaining to the Full Implementation of Inter-Entity Costing

Statement of Federal Financial Accounting Standards (SFFAS) 30, Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts, requires full implementation of the inter-entity cost provision in SFFAS 4 for reporting periods beginning after September 30, 2008. By fully implementing the provisions in SFFAS 4 this standard will require the following for inter-entity cost:

Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice.

Recognition of inter-entity costs that are not fully reimbursed is limited to material items that (1) are significant to the receiving entity, (2) form an integral or necessary part of the receiving entity's output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity (Text preceding paragraph 105 of SFFAS 4).

During its deliberations on the standard, the Federal Accounting Standards Advisory Board (FASAB or the Board) determined that there was a need for additional detailed, practical guidance on various issues related to the full implementation of inter-entity costing. Therefore, the Board requested the Accounting and Auditing Policy Committee (AAPC) Inter-Entity Task Force to continue its work in this area by developing one or more Technical Releases (TR) that will address implementation issues raised by respondents. The guidance plan from FASAB staff included four issue areas that should be addressed. These are: Broad and General Costs, directness of relationship to the entity's operation, identifiability, and individual inter-entity costs identified by preparers or auditors.



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Therefore, the Inter-Entity Task Force has developed the attached questionnaire to obtain information about these four issue areas. We are requesting your responses be forwarded by June 30, 2006.

Please feel free to contact Monica Valentine on 202-512-7362 to discuss any questions you may have. Responses may be emailed to [valentinem@fasab.gov](mailto:valentinem@fasab.gov) or faxed to 202-512-7366. Thank you for your time and assistance.

Attachment

## QUESTIONS ON BROAD AND GENERAL SUPPORT COSTS

The following questions pertain to issue area no. 1, extensive evaluation of costs to determine which ones may be considered “broad and general” for all entities. If possible, a list of the costs that should be considered broad and general for all entities will be developed.

Per SFFAS 4, broad and general support services provided by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity.

Paragraph 112 of SFFAS 4 describes this category as follows:

Broad, general support -- Some entities provide broad, general support to many, if not all, reporting entities in the federal government. Most often this type of support involves the establishment of policies and/or the provision of general guidance. The costs of such broad services should not be recognized as an expense (or asset) by the receiving entities when there is no reimbursement of costs. Thus the standard does not apply when support is of a general nature provided to all or most entities of the federal government.

An example of this situation can be found in the Office of Management and Budget which establishes policy and provides general guidance to all parts of the executive branch of government. The costs of OMB should not be spread over all reporting entities because the services provided are (1) general and broad in scope, (2) provided to almost all reporting entities in the executive branch, and (3) not specifically or directly tied to the receiving entity's outputs.

On the other hand, some services provided, under certain circumstances, should still be recognized even though they may be considered broad and general in nature if such services are integral to the operations of the receiving entity. Such services include check writing by the Department of Treasury or legal activities performed by the Department of Justice. For example, when the issuance of checks is integral to the operations of an entity (e.g., the Internal Revenue Service and the Social Security Administration), the receiving entity should include the full cost of issuing checks in the full cost of its outputs. However, if the issuance of checks is insignificant and incidental to the operations of an entity, the entity should not normally recognize that cost.

With the above FASAB description of broad and general costs in mind, please answer the following:

1. Please identify and provide a description, including estimated costs where possible, of all broad and general support services that your entity provides to all or most other entities.
2. Please identify and provide a description of all broad and general support services that your entity receives, and also identify the providing entity.
3. Describe those cases in which such services received form a vital and integral part of the operations or output of your entity.

Below we have identified specific examples of potential broad and general support services. Please identify if you are a provider, receiver, both, or neither for each service listed. If you are a provider and/or receiver, please answer the questions pertaining to the example. We welcome comments from respondents that are neither providers nor receivers as well.

4. Administration of Federal employees' benefit programs – Although Federal entities now recognize the costs of employees' pension and post retirement benefits, they do not recognize the costs of administering those benefit programs. The same is true with workmen's compensation and judgment funds.
  - a) Indicate if you are a provider, receiver, neither, or both: \_\_\_\_\_
  - b) Please provide your rationale for why you believe the cost of services provided by OPM, the Labor Department, and the Treasury for administering the benefit programs and the judgment fund are either broad and general support services or inter-entity services subject to full costing.
  - c) If you believe any of these administrative costs should be considered broad and general, describe any circumstances in which the administrative costs could be considered inter-entity services subject to full costing.
5. Legal services provided by DOJ - DOJ provides legal representation, guidance, and support to the President, the Cabinet, and the executive departments and agencies.

DOJ offers the following for why they believe these services should be considered broad and general: In most cases, non-reimbursed legal support is broad and affects all executive branch agencies regardless of what the "source agency" (i.e. the agency with respect to which the matter arose) may be, thus it would not be reasonable to assign costs of the case to any entity. Where litigation activities are "integral" to an agency's operations, that fact typically is evidenced by a statute

expressly giving that agency litigation authority; otherwise all litigation in the United States is reserved to the DOJ. Lastly, the DOJ may take a position that may or may not support the agency receiving the services. However, other entities responded to prior surveys that they believe some DOJ legal services should be considered inter-entity costs.

- a) Indicate if you are a provider, receiver, neither, or both: \_\_\_\_\_
  - b) Please provide your rationale for why you believe these services are either broad and general support services or inter-entity services subject to full costing.
  - c) If you believe these services should be considered broad and general, describe any circumstances in which the services could be considered inter-entity services subject to full costing.
6. Payment and collection services provided by Department of the Treasury –  
Treasury's payment function includes issuing and distributing check and electronic payments on behalf of other agencies. The collection function includes managing the collection of federal revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines, and proceeds from leases. FASAB has already stated that check writing services, at least, should be considered broad and general in nature, but should still be recognized if these services are integral to the operations of the receiving entity.
- a) Indicate if you are a provider, receiver, neither, or both: \_\_\_\_\_
  - b) Please provide your rationale for why you believe these payment and collection services provided are either broad and general support services or inter-entity services subject to full costing.
  - c) If you believe these services should be considered broad and general, describe specific circumstances in which these services should still be recognized as an expense by the receiving entity.

## QUESTIONS ON INDIVIDUAL INTER-ENTITY COSTS

The following questions pertain to directness of relationship to the entity's operation, identifiability, and individual inter-entity costs identified by preparers or auditors.

The Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards (SFFAS) 4, "Managerial Cost Accounting Standards and Concepts," contains requirements for full reporting of cost. The following extract is intended to provide background information in preparation of completing this part of the survey.

SFFAS 4, Paragraph 112 states:

"However, the situation is often different with goods or services transferred within the federal government that do not involve eventual sales to entities outside the federal government. The federal government in its entirety is an economic entity. Therefore, it is reasonable to expect some flow of goods or services between reporting entities as those entities assist each other in fulfilling their missions and operating objectives. There are some cases in which the cost of non-reimbursed or under-reimbursed goods or services from other entities need not be recognized as part of the cost of the receiving entity. The following general criteria are provided to help in determining the types of inter-entity costs that should or should not be recognized.

-Materiality – As with other accounting standards, the provisions of this standard need not be applied to immaterial items. However, in the context of deciding which inter-entity transactions are to be recognized, materiality, as used here, is directed to be the individual inter-entity transaction rather than to all inter-entity transactions as a whole. Under this concept, a much more limited recognition is intended than would be achieved by reference to the general materiality concept.

In this context, then, materiality should be considered in terms of the importance to the inter-entity transaction to the receiving entity. The importance of the transactions, and thereby their recognition, should be judged in light of the following factors:

- Significance to the entity - The cost of the goods or service is large enough that management should be aware of the cost when making decisions.
- Directness of relationship to the entity's operations - The goods or service provided is an integral part of and necessary to the output produced by the entity.
- Identifiability - The cost of the good or service provided to the entity can be matched to the entity with reasonable precision."

7. Without regard to materiality, complete the attached form identifying all non-reimbursed and under-reimbursed cost not identified previously as broad and general costs, where your entity is the provider of the goods or service and where your entity is the recipient of goods or services from other entities.

8. For the non-reimbursed and under-reimbursed Inter-Entity Cost identified in your table as not being material, please describe why they are not considered to be material. Please be specific in your reasoning. i.e., dollar value of \$x.xx is too small, the amount is only x.x% of total cost, etc.

9. Are there any non-reimbursed and under-reimbursed Inter-Entity Cost which have been identified but which your entity believes fails the qualification of having a direct relationship to your entity's operations? If so, identify them and explain how these identified cost are not directly related to your entities operations.

10. Assuming that 100% of all non-reimbursed and under-reimbursed cost must be reported to all receiving activities, would your entity have any impediments to implement this policy? If so, what would they be?

11. Is your entity providing non-reimbursed and under-reimbursed goods or services to multiple other entities? And if so, can the cost be identified accurately to the proper entity? For example, if you have multiple tenants in a building can the cost be identified to each tenant?

12. Is your entity receiving non-reimbursed and under-reimbursed goods or services that should be further distributed to multiple responsibility segments of your organization? And if so, can the cost be identified accurately to the proper responsibility segment? For example, if you have multiple responsibility segments receiving free rent in a building can the cost be identified to each segment?

13. In accordance with Interpretation 6 *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4*, please describe all intra entity non-reimbursed and under-reimbursed costs determined to be material.

14. How has your entity used the analyses from question 13 above to determine the impact on cost-per-output performance measures and other relevant data in the *Performance and Accountability Reports, Management's Discussion and Analysis*? How does your entity currently use or plan to use non-reimbursed and under-reimbursed inter-entity costs in cost per output determinations?

15. How has your entity applied, or how does it intend to apply, inter-entity costs to the responsibility segment level?

16. Please detail any other factors or questions specific to inter-entity non or under-reimbursed costs that would inhibit you from capturing these costs in accordance with the standards.

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- 2 17. Identify any non-reimbursed and under-reimbursed costs where you feel additional
- 3 guidance is necessary before you can identify and capture the costs. Describe the issues
- 4 that need to be addressed and provide your input for the issues.



## INTER-ENTITY COSTS

Reporting Entity:

Entity POC:

Phone Number:

E-mail Address:

Receiving Entity	Providing Entity	Type of Good or Service	Material to Receiving Entity?	Period (Annual, Quarterly, Monthly)

Examples of non-reimbursed or under-reimbursed expenses:

Rent, Utilities, Labor Cost, Unemployment Taxes.

\*\*\*\*Please note: The instructions for this table are provided in question 7 of the attached questionnaire.